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City Projects \$15 Million Shortfall for Fiscal Year 2012

(LANSING) – Finance Director Jerry Ambrose today told the Lansing City Council that the City of Lansing will face a budget shortfall estimated at \$15 million for the coming Fiscal Year 2011-2012 that begins July 1, 2011. The projected shortfall for FY12 is the result of major declines in property tax revenues and other city income sources due to the “Great Recession,” while the cost of providing city services continues to escalate.

“The impact of the historic economic meltdown in Michigan continues to have negative impacts on municipal budgets across the state. Although we are in better financial condition than most cities, our budget will continue to reflect the impact of the recession for the next several years,” Mr. Ambrose said. “Even though we have made significant spending cuts and reduced our workforce by 15% over the past five years, we continue to face declining revenues and increased costs that will require us to make very difficult decisions going forward.”

Mr. Ambrose noted that the cost of providing city services is expected to increase to \$118 million in FY12. At the same time, city revenues are projected to decline to \$103 million. The difference between projected expenses and projected revenues creates an estimated budget gap of \$15 million.

“Our projections for the coming year make it very clear that the collapse of real estate values, declining income tax revenues and reductions in state shared revenues have had – and will continue to have – very serious consequences for our budget,” Ambrose said. “Because the crisis in real estate values continues to play out in both the residential and commercial sectors, we anticipate an 8 percent decline in property tax revenues for next year’s budget. We also expect further reductions in state shared revenues due to the State of Michigan’s ongoing financial crisis.”

Based on the first quarter results for the current budget year, Mr. Ambrose said that the city’s finances appear to be on track to meet the revenue and expenditure levels adopted in the FY11 budget. However, he cautioned that further declines in property and income tax revenues, as well as uncertainty about the future of state shared revenues, could force the city to make additional spending cuts before the end of the current fiscal year on June 30, 2011.

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Ambrose also reported the city's final financial results for the Fiscal Year 2009-2010 budget, which ended June 30, 2010, noting that the ongoing deterioration in property values and less than expected revenues from other sources meant the city closed the books on FY10 with the use of \$4.6 million in General Fund reserves, \$1.2 million more than projected during City Council consideration of the Mayor's FY10 Deficit Elimination Plan. The city continues to maintain nearly \$6 million in its Budget Stabilization Fund.

Ambrose said that for the sixth year in a row, Mayor Bernero and his administration will propose a balanced budget for FY12 that does not rely on a general tax increase or the planned use of reserves. The mayor's spending blueprint for the coming year will be presented to City Council in March and finalized in May.

"As in the past, we will be forced to make tough choices to bring expenses in line with significantly lower revenues," Ambrose said. "We have made steady progress in addressing the city's structural budget deficit and we will not stray from the path of fiscal responsibility in facing the challenges that still lay ahead."

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